

Bangladesh Open University
MBA Program
Semester: 162 (4th Level)

Course: Corporate Financial Reporting and Analysis

Due on: October 20, 2017

Instructions

- Answer all the questions in your own handwriting on A4 size white paper.
- The assignment must be submitted on or before due date to the Coordinator of the study center you are attached with.
- Spiral binding is strictly prohibited. Instead, transparent folder or file cover or any other soft binding may be used.

Questions

1. “The matching process is achieved through application of the accrual method of accounting.” Explain with examples.
2. What is the main theme of conservatism convention? Why is this convention discouraged in company Act?
3. Apex Industries, Inc., a new company started on January 1, 2017, sold at the beginning of the year 10,000 shares of company stock for Tk.50,00,000. The company bought for cash Tk.20,00,000 worth of raw materials and processing equipment worth Tk.10,00,000. The equipment was expected to last 10 years. During the year the company has sales of Tk.45,00,000, of which Tk.5,00,000 was still owed by customers at year-end; consumed Tk.15,00,000 worth of raw materials; spent Tk.10,00,000 cash on wages; and paid Tk.5,00,000 cash for administration, rent, and selling activities. During the year the company also bought Tk.15,00,000 of raw materials for which it still owed Tk.5,00,000 at the end of the year. Dividends of Tk.2,00,000 were declared and paid at year-end. The company anticipates it will have no bad debts. Your assignment is to prepare an income statement for the period and a balance sheet as of the end of the year. (Disregard taxes)
4. Comparative balance sheets for Rangs Motors Ltd. are presented below.

Rangs Motors Ltd.
 Comparative Balance Sheet
 December 31

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Cash	Tk.58,000	Tk.22,000
Accounts receivable	85,000	76,000
Inventories	180,000	189,000
Land	80,000	100,000
Equipment	260,000	200,000
Accumulated depreciation	<u>(66,000)</u>	<u>(42,000)</u>
Total	<u>Tk.545,000</u>	<u>Tk.545,000</u>

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Liabilities and Stockholders' Equity

Accounts payable	Tk.34,000	Tk.47,000
Bonds payable	150,000	200,000
Common stock (Tk.1 par)	194,000	164,000
Retained earnings	<u>216,000</u>	<u>134,000</u>
Total	<u>Tk.597,000</u>	<u>Tk.545,000</u>

Additional information:

- (i) Net income for 2016 was Tk.125,000.
- (ii) Cash dividends of Tk.40,000 were declared and paid.
- (iii) Bonds payable amounting to Tk.50,000 were redeemed for cash Tk.50,000.
- (iv) Common stock was issued for Tk.30,000 cash.
- (v) Depreciation expense was Tk.24,000.
- (vi) Sales for the year were Tk.978,000.

Required::

- (a) Prepare a statement of cash flows for 2016 using the indirect method.
- (b) Compute free cash flow.

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Due on: December 15, 2017

(Answer all the questions in your own handwriting on A4 size white pages)

1. Given below some ratios of A Ltd. and B Ltd. Comment on the ratios and give a comparative view in respect of (a) Liquidity (b) Profitability and (c) Solvency:

	<u>A Ltd.</u>	<u>B Ltd.</u>
Current ratio	1.5:1	2.75:1
Acid Test ratio	0.5:1	0.4:1
Average collection period	60 days	80 days
Inventory turnover	6 times	4 times
Gross profit ratio	27%	28%
Net profit ratio	16%	16%
Operating profit ratio	15%	13%
Debt/ Equity ratio	35:65	60:40

2. Modern Company purchased a mixture machine on January 1, 2012 for Tk. 29,000. The machine is expected to have a useful life of five years and a residual value of Tk. 2,000. The company engineers estimated that the mixture machine will have a useful life of 7,500 hours. It was used 1,500 hours in 2012, 2,625 hours in 2013, 2,250 hours in 2014, 750 hours in 2015, and 375 hours in 2016. The Company's year-end December 31.

Required:

Prepare the statements showing the depreciation expenses carrying the value for 2012 to 2016, using (i) Straight line, (ii) Units of production, and (iii) Double declining balance methods.

3. Rashed, Inc. began work on a Tk. 7,000,000 contract in 2016 to construct an office building. During 2016, Rashed, Inc. incurred costs of Tk. 1,700,000, billed their customers for Tk. 1,200,000, and collected Tk. 960,000. At December 31, 2016, the estimated future costs to complete the project total Tk. 3,300,000. Prepare Rashed's 2016 journal entries using the percentage-of-completion method.
4. Differentiate between periodic and perpetual inventory system.

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